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ABSTRACT

Federal initiatives should be undertaken to reduce long-term structural unemployment in the United States. Long-term structural unemployment has risen during the 1970s and 1980s but is still primarily a problem of disadvantaged workers, not dislocated ones. The impact of technological change on occupations is felt mainly by the employed who are retrained in midcareer. Export of American manufacturing jobs to foreign countries with lower wage levels need not be viewed with alarm, for individual manufacturing products pass through a "life cycle" over time and export of production is a common and efficient later phase. Seven proposals have been identified to address structural unemployment and enhance national productivity: reinvestment in traditional employment and training incentives for the disadvantaged, expansion of federal efforts to upgrade educational investment in youth, encouragement of greater employer training for the employed, establishment of an entitlement program for retraining functionally illiterate unemployed adults, provision of training to dislocated workers in job searching and career management, targeting of the Job Training Partnership Act's Title III resources toward providing short-term assistance teams for communities experiencing large-scale employment dislocation, and modification of federal policies to encourage workers who self-select to seek retraining. (YLB)

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EMPLOYMENT AND TRAINING PROGRAMS TO REDUCE STRUCTURAL UNEMPLOYMENT

by

Marc Bendick, Jr.

A Statement before the
Joint Economic Committee
United States Congress

Hearings on Industrial Policy and the Retraining Needs
of the Nation's Structurally Unemployed

September 16, 1983

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Mr. Chairman and Members of the Committee:

I appreciate this opportunity to participate in these hearings on the role of federal employment and training programs in attacking the problems of structural unemployment. I am Dr. Marc Bendick, Jr., an economist with the Urban Institute, which is a nonprofit, nonpartisan public policy research center in Washington, D.C.[1] This morning, I will first briefly discuss the nature and origins of the problems of long-term structural unemployment. Then I will set forth a seven-part agenda for federal initiatives which could contribute significantly to its reduction.

The Nature of Structural Unemployment

Let me begin by suggesting a working definition of structural unemployment which federal action should seek to attack: It is recurrent or long-duration involuntary joblessness which remains when national unemployment has been brought as low as it can be brought without retriggering unacceptable inflation. That is, it is the serious unemployment which remains when the limits of macroeconomic policies to promote prosperity have been reached.

As this committee is, of course, well aware, these limits have crept further out during the 1970s and 1980s, for a variety of reasons not all of which are fully understood. While once economists boldly targeted four or four and a half percent as an achievable unemployment rate, we now meekly speculate about one as high as six, seven, or even eight percent.[2] With a national workforce of 105 million, a seven percent unemployment rate translates into somewhat more than seven million structurally unemployed workers.[3] Who are these seven million? Among them, who are the three million who have joined these ranks as the full employment target has drifted upward from four percent to seven percent?

Reading the popular press or watching the evening news on television, one is immediately confronted by one candidate answer to this question: They are dislocated workers--midcareer, middle class, solid citizens who were formerly steadily employed at high wages in such mainstream smokestack industries as steel and autos but whose jobs have permanently disappeared under the combined onslaught of new production technology and foreign competition. Careful statistical studies suggest that this answer is generally incorrect. There are, of course, several millions of such workers currently on long-term lay off from America's manufacturing industries. But there are a number of reasons for believing that the vast majority of these are cyclically unemployed, under the combined effects of the deepest recession since World War II, a period of real interest rates of unprecedented heights, and an overvalued U.S. dollar cutting seriously into export sales. Manufacturing has provided more than 20 million jobs for a nonrecessionary American economy for the past several decades, and statistical analysis suggests that it will continue to do so for the upcoming decade at least.[4] My own research has estimated that only approximately 100,000 workers fall in the category of dislocated workers; i.e., those who have permanently lost their jobs due to structural change in the economy and have joined the ranks of the long term unemployed who would remain largely untouched by a national economic recovery.[5] This number represents less than two percent of the seven million structurally unemployed on whose problems these hearings are focused. They represent an even smaller proportion of the population of all persons experiencing labor market distress in the sense of either structural unemployment or employment at low-wage, unstable, low opportunity jobs.

Who then are the majority of the structurally unemployed and others experiencing labor market distress? The list is familiar to anyone involved

with federal employment and training programs over the past two decades: inner-city, minority, teenaged high school dropouts; female single parent dependent on public assistance; low skill, low-wage "working poor" adults, many of them minorities; recent immigrants, both legal and illegal; and residents of stagnant and declining local areas, rural and urban.[6] These groups stand at the end of the hiring queue, hired last as labor markets tighten, let go first as demand slackens, and given fewest opportunity to advance or to develop skills while employed. As the full employment unemployment rate has moved from four percent to seven percent, the queue of jobseekers in front of them has lengthened. Most of the mainstream midcareer workers on layoff from manufacturing have moved into the hiring queue ahead of them, rather than joining them in the structurally unemployed end of the queue.

The Impact of Technological Change on Occupations

Lest this discussion seem hopelessly old-fashioned, let me hasten to add that I am by no means denying the reality of rapid structural change in the American economy of the 1980s. New patterns of international trade, new technology embodied in products and in production processes, and changing prices and consumer tastes are all appearing with startling and accelerating rapidity. In their wake, profound changes are underway in the mix of firms and industries in the economy, in the mix of occupations required to staff these firms, and in the mix of skills which define each occupation. The notion that each of us will work in two or three careers during our working lives is becoming a reality for more and more of us. But the process by which these changes occur is both slower and more incremental than is often envisioned; and the locus of much of this change is among the employed, not the unemployed.

Let me illustrate this general point with some examples from manufacturing. I have already mentioned the fact that the total number of jobs in manufacturing in the United States outside of a recession (about 25 million jobs) has not declined over the past several decades and appears not likely to decline significantly over the next decade. Employment in manufacturing has only represented a declining proportion of all jobs because the service sector has grown dramatically in the same period (from 47 million jobs to 65 million jobs).[7] The implication of this fact is that for most workers currently on layoff from manufacturing, there will be opportunities to return to manufacturing and no particular need to retrain and to switch careers dramatically in middle age.

One particularly well-publicized aspect of the manufacturing employment issue is that of robotics, the replacement of relatively low-skilled mass production workers by "smart machines." Certainly the technological advances in this field are noteworthy, with a projected 30 to 40 percent annual growth for the robot population engaged in manufacturing.[8] However, careful estimates of the total job displacement likely to arise from this source are dramatic largely in their smallness, not their largeness. The best available estimate, that provided by researchers at the W. E. Upjohn Institute for Employment Research, is that robots will directly substitute for between 100,000 and 200,000 workers over the decade of the 1980s. Taking the larger of these two figures, this estimate implies that 20,000 workers in manufacturing will face displacement each year--two workers out of 10,000 in the total U.S. work force, two workers out of 1,000 among today's unemployed, and one worker out of 1,000 among today's manufacturing work force. Such figures imply that no robot population explosion should be blamed as the primary source of today's unemployment; and they imply that planning for massive job displacement in the face of a robot

population explosion would be an inappropriate national priority in the next decade. Even in the automobile industry, where the displacement effect will be largest, only between six and eleven percent of all operative and laborer jobs will be displaced by 1990--displacement at the rate of one percent of the unskilled worker force or less per year. Given that typical voluntary turnover in manufacturing jobs may run as high as 20 or 25 percent a year, such displacement can typically be handled by attrition rather than layoff.

The implementation of robots in the automobile industry also provides an interesting example of the process by which occupations evolve and workers are retrained to work with new technology. Several community colleges in the Detroit area have created new two year training programs in robotics operations and maintenance, aimed at pre-career students and at the unemployed. These innovative efforts certainly are worthwhile and will prove valuable in the long run. But in the short run, they have experienced great difficulty in placing their graduates. The reason is that as the automobile manufacturers have installed robots in their plants, they and their unions have selected high-seniority electricians and millwrights already employed in the plant, sent them to the robot manufacturers' plants to receive a few weeks' training on the new machine, and thus obtained the trained work force they required with neither displacement nor hiring. Similar patterns are observable in office situations, where word processing has revolutionized the production process for typed manuscripts. Employers did not lay off thousands of secretaries and hire thousands of word processors; rather, generally they invested in the one week's formal training (and multiple weeks of experimentation and practice) required to retrain their existing staff.

These two examples are representative not only of the predominant process by which the skills of the workforce evolve--via retraining among the employed rather than the unemployed. They are also representative of the magnitude of retraining which is involved. Most new technology evolves out of existing technology, with strong linkages to the previous mode of work. A few days or a week in a classroom, a few weeks or a month of on-the job "learning by doing" are typical of the level of effort to move a worker from the old to the new. Relatively few workers scrap an existing career, return to the classroom for months or years, and emerge with an entirely new occupation.

Part of the reason that such incremental learning is sufficient for keeping up with changes in the economy is that the job openings which are created by new technology do not necessarily require higher skill content than more traditional jobs; indeed, in many cases, the growing sophistication of the machines with which employees are paired means that the skill level of the job itself can be reduced.[9] Consider again, for example, the role of the maintenance worker charged with keeping an assembly line robot in operation. When an arm of that robot ceases to function, the maintenance worker does not halt the assembly line and skillfully diagnose and repair the problems of the arm. Rather, he simply replaces the arm module with a new one and probably discards rather than repairs the malfunctioning one. A similar example is provided by word processing machines which now can correct the spelling of badly trained typists.

A second reason that incremental learning for midcareer workers is generally sufficient to meet their retraining needs is the slow rate at which the occupational composition of U.S. employment changes. In consequence, most of today's midcareer workers will have the option of completing their careers in the occupations in which they are presently working.

In projections of job vacancies between 1980 and 1990, the U.S. Bureau of Labor Statistics advises us that there will be about 700,000 new job openings for secretaries; 500,000 for truck drivers; 500,000 for nurses' aides; and 500,000 for janitors.[10] In the same era, acccording to the Upjohn Institute study cited earlier, the number of job openings created in all phases of the robotics industry--design, manufacturing, operations, and maintenance--will be between 30,000 and 60,000.[11] New, high tech occupations may have spectacularly high percentage growth rates--the population of robotics technicians may be growing at 500 percent per year--but the total number of jobs is very small, compared to the numbers available in traditional fields.

The Impact of International Trade on American Employment

A second source of concern over massive job displacement in American industry is that of the "export" of American manufacturing jobs to foreign countries with lower wage levels. It is clear that very high union wage scales -- sometimes more than $20 per hour in total compensation costs for workers with few special skills -- have contributed to the rapid loss of U.S. market shares in such industries as automobile manufacturing and basic metals production. But the picture in U.S. manufacturing more broadly is far less dramatic.

First, labor costs in much of the U.S. manufacturing have not risen to levels which create extreme economic pressure to move jobs abroad or which create inordinate profit opportunities for foreign competitors. In fact, one of the major barriers to employment adjustment by workers laid off from industries such as automobile manufacturing is that alternative manufacturing jobs open to them in the United States often pay less than half their previous wage.[12] The increasing involvement of the U.S. economy in international

markets will certainly exercise a competitive discipline on U.S. wage levels, to keep them reasonably related to worker productivity. But that international competition will not necessarily lead to massive job dislocation because most U.S. wage levels do not seem extraordinarily out of line.

The second reason that the so-called export of jobs need not be viewed with alarm is that this process has been going on for many decades and for thousands of products in harmony with a growing and prosperous American economy. Indeed, it is one of the wellsprings of that prosperity, as the rising incomes of America's trading partners create expanding markets for U.S. products.

Economists have recognized for more than twenty years that individual manufacturing products tend to pass through a "life cycle" over time and that "export" of manufacturing production is a common and efficient later phase of that cycle.[13]. In the early years of a product's lifetime, when the product is being designed, developed, modified, and introduced to its market, the work required on the product is largely nonstandard and skill-intensive. It is therefore efficient to perform this work with a comparatively high-skill, high wage work force such as is found in the United States. Once the product has become standardized and when a mass market has been developed, competition in the product focuses more and more on the costs of production; and these costs can often be reduced by shifting the work to a lower-wage, lower-skill labor force, often in a newly industrializing nation such as Taiwan or Singapore.

The American economy has experienced this cycle over and over, for thousands of products and millions of jobs, over many decades. Today the product involved may be basic steel--or Atari computers; a decade ago, it was consumer electronics; and several decades before that, it was shoes and textile

gray goods. The movement overseas of the production of a particular product is not fatal to the American economy or the living standards of the American work force, as evidenced by the fact that the decades which have seen this movement have also seen prosperity, rising living standards, and a rapid expansion of the American work force. If the wellsprings of research, development, and innovation generating new products at the "front end" of their life cycles were to dry up, then the American economy would be in trouble; but trouble is not signaled by the "graduation" of products in the latter stages of their cycles, even products which have become a familiar part of the American economic landscape.[14]

Seven Proposals for Addressing Structural Unemployment and Enhancing National Productivity.

The upshot of the picture which I have presented is that the structural unemployment problem facing the United States today exhibits considerable continuity with that experienced in the past decades, rather than representing a new phenomenon generated by revolutionary shifts in the American economic system or economic environment. In the 1980s, just as in the 1970s, the primary problem we must solve in terms of structural unemployment is: How do we enhance the labor market opportunities of citizens with serious labor market handicaps (and the full employment of the entire labor force) without triggering unacceptable inflation?

I will now present seven proposals for federal employment and training initiatives which, I believe, can significantly promote this elusive goal. Each responds to the facts about the American economy and economic change which I set forth earlier in this statement. Each is carefully targeted at the special problems of citizens with serious labor market handicaps. And each is designed to be cost-effective and efficiency-promoting--economically justified

--in the sense of returning more to the nation in terms of economic productivity than it asks society to invest.

Proposal One: Reinvest in Traditional Employment and Training Initiatives for the Disadvantaged.

Throughout this testimony, I have emphasized that the vast majority of the structurally unemployed in the 1980s are disadvantaged workers, not dislocated workers. It therefore follows that the highest priority for federal employment and training initiatives to reduce structural unemployment should be on programs targeted on the population of disadvantaged youth and adults. These persons are the target group of most federal employment and training programs of the past twenty years, and they are the target group for Title II of the new Job Training Partnership Act.

During the past twenty years of programs for the disadvantaged, the United States has developed very effective and cost-effective models for delivering services to these persons. To cite our well known example, the Job Corps provides job skill training, remedial basic education, and comprehensive supportive services to poor, unemployed, out-of-school youth aged sixteen to twenty-one. Careful evaluations of this program show that for every dollar invested in these efforts, society gets back $1.45 in increased employment and output and reduced crime and welfare dependency.[16] Other programs--such as "Supported Work" for older women on public assistance and classroom skill training for adults--also turn in positive benefit-cost ratios. And yet in the past two years, the budgetary resources available to implement these successful programs have been sharply attacked and, in many cases, reduced. Reinvestment in these activities through expansion of their available budgets will directly address the main set of problems of structural unemployment. Equally

important, in an era of stringent government budgets, they will more than pay their own way; and in an era which emphasizes productivity and growth, they add to our productive workforce rather than our dependent population.

Proposal Two: Expand Federal Efforts to Upgrade Educational Investment in Youth.

A second high priority target group for efforts to reduce structural unemployment is youth, the next generation of workers.

Here the federal responsibility starts with the problems of disadvantaged youth, who require renewed efforts to prevent school dropouts and to upgrade the quality of education received by inner-city school students. The Youth Incentive Entitlement Pilot Project (YIEPP) of the Carter Administration provides one apparently effective mechanism for the former, and "Chapter I" compensatory education programs do so for the latter.[17] Again, well-developed, cost-effective program models exist; we know how to attack the problem, if given adequate resources.

In the case of youth, however, the need for new national investment in human resources extends beyond the disadvantaged population to encompass the entire next generation of workers. Earlier in this statement, I have emphasized that the pace of occupational evolution in the economy is sufficiently slow that most current adult workers can complete their working lives within their current occupations, and most economic dislocation can be absorbed by attrition. But the next generation of labor market entrants will find relatively few opportunities to follow their parents' footsteps in traditional manufacturing jobs. The children of blue-collar mill workers must be counseled and assisted to continue their education beyond high school, to obtain technician skills in community colleges and post-secondary vocational

schools or professional or managerial skills in colleges and universities. Expanded programs of grants and loans for post-secondary education would be one useful step. Retargeting of most resources under the Vocational Education Act from secondary schools to post secondary schools would be another.[18] In this way, the gradually shifting occupational composition of the economy can be accommodated in a relatively smooth intergenerational fashion.

Proposal Three: Encourage Greater Training by Employers for the Employed.

Another point which I have emphasized in this statement is that most of the updating of skills which is required by economic and technological change takes place in a continuous flow of small-scale retraining among the employed rather than in long-duration back-to-the-classroom spells among the unemployed. The American Society for Training and Development estimates that annual expenditures by private employers on employee training totals $30 to $50 billion per year,[19] or some ten times larger than the scale of the entire Job Training Partnership Act.

And yet, large as this number is, there is reason to believe that it is still less than the socially optimal level of investment for the American economy and the American people. Due to the presence of what economists refer to as "private market failures," the American private sector acting alone persistently underinvests in the skills needed by its own work force. These market failures hamper both investment by employers in training their current employers and employees' investment in training themselves.[20]

In the case of employers, investment in worker training, like any other investment decision, is decided upon in terms that return on this investment. When workers are free to move from company to company, it is risky for an employer to spend thousands and thousands of dollars to give a worker a skill

in great demand, because that firm's competitor will try to hire that worker away when his training is complete. When all employers together react to this fact, we get a situation where everyone needs a skilled labor pool but nobody will pay for it.

As for employees, we do see a great deal of self-investment by workers. When a high school graduate goes to college, or when you or I take a job despite a low wage but "because it is good experience," that is precisely what is going on. But again the presence of several deficiencies of the private market for training suggest that the amount of this investment is less than optimal. First, bouts of formal midcareer retraining require a cash flow, both to pay for the instruction itself and to support the worker and his or her family while the training is proceeding. This can be a particular problem if the worker wishes to undertake retraining when unemployed, when cash flow is tightest. Second, because formal midcareer training is very expensive, individuals may be reluctant to undertake such a sizeable investment when there is no certainty that it will pay off. And finally, there is a problem of information: Individuals may not be well enough informed about trends in the labor market to pick the right field in which to be trained.

The training gap between what the private sector is currently providing and the ever-increasing training needs of society can be effectively addressed by a new federal initiative. A model for this federal action can be found in the French experience. Since 1971, the French have operated a national system for financing worker training which creates an effective public-private partnership to address exactly the problems outlined.

The key element of the system is what the French refer to as an "obligation to spend," enforced by a payroll tax if that obligation is not met. Each employer of ten or more employees has, by law, an obligation to

expend an amount equal to 1.1 of its total wage bill on maintaining and expanding the skill level of the French labor force. If the firm chooses to train its own workers and spends at least the 1.1 percent minimum, then its obligations are discharged. Or the firm may meet the requirement by participating in and financially supporting an industry-wide training fund (usually operated cooperatively between employers' associations and trade unions). Or the firm may donate the funds to a government training center. But the firm might as well spend on one of these forms of training, because if it fails to meet its obligations to spend, then the unspent balance of the 1.1 percent is due to the government as a payroll tax. And the experience in France is that employer investment in training has expanded significantly and steadily in response to the tax, particularly among smaller firms where the tendency to underinvest is most pronounced.[21]

One of the advantages of such an approach is its flexibility and decentralization of decisionmaking. Funds may be used for preventive training (to avoid layoffs by retraining workers for new products and processes), for the training of newly hired workers (including apprentices), for occupational advancement of workers, for the maintenance of old skills, or the acquisition of new ones. No vast amounts of money flow into and out of the public treasury, and no government central plans or decisions constrain what a firm may do. Yet each firm has a profit incentive to use its training resources wisely, and all firms together are required to maintain a high level of sustained investment in the French workforce.

Such a system could be adapted in the United States, either directly or through one of several incremental strategies. One of the incremental strategies would involve reprogramming for training purposes some of the payroll tax fund already collected for unemployment insurance. The state of

California has taken a step in this direction by reducing its payroll tax for unemployment insurance by one-tenth of one percent and creating a new payroll tax in the same amount for worker retraining and other adjustment programs. Another incremental approach would be to impose this obligation to train initially on the defense industry, where government purchases already create both a prosperous growth period and a basis for federal intervention. Chairman St. Germain of the House Banking Committee has recently introduced proposals to this effect in discussions of the proposed Defense Industrial Base Revitalization Act.

The approach proposed here contrasts in important ways with some other proposals which have been set forth recently also seeking to increase the level of training of the American workforce. The approach of the Individual Training Account (ITA) is perhaps the most widely discussed of these.[22] I have a number of difficulties with the ITA approach, but the most basic one is that it is oriented toward after-dislocation, long-duration, change-of-career retraining of the unemployed, rather than toward the preventive, continuous, incremental training of the employed which is emphasized here. Relatedly, it bypasses the employer role in forecasting training needs and places a heavy burden of career planning on blue collar workers who more traditionally adapt their skills to their employers' needs rather than make such decisions themselves. The French approach seeks to avoid both of these difficulties, as well as avoiding the potentially huge increases in the federal budgets which an ITA system might involve. In a typical year, one worker in eight in the French labor force receives some training, and the average amount of training is fifty-five hours. That is precisely the pattern of investment which needs to be promoted in the United States.

Proposal Four: Establish an Entitlement Program for Retraining Functionally Illiterate Unemployed Adults.

Another situation in which occupational retraining is dominated by employer-provided training for the employed is found when firms expand their labor force and hire large numbers of raw, unskilled trainees which they then train for their specific requirements.

This process creates many opportunities for the reemployment of dislocated workers without specific job skills. However, a jobseeker will typically be left behind in this uptake if he is not functionally literate and training ready. This certainly is one reason many disadvantaged workers have difficulty getting hired in there situations. But it is a key problem for many dislocated workers as well. My own empirical research on dislocated workers nationwide suggested that about one-third do not possess a high school diploma, and perhaps another one-third possess a diploma but cannot read, write, compute, or reason at the skill level promised by that credential.[23] Functional illiterates do not make safe, flexible, productive, or easily-trained employees; that, rather, than their lack of specific job skills, is often what screens them out of job opportunities.

If the federal government wishes to utilize its modest-scale training resources wisely, one of the places it will concentrate then is on this problem of functional illiteracy--on providing the prerequisites for skill training rather than on skill training itself. That way, public monies will complement, rather than substitute for, the large volume of private industry skill training available to training-ready individuals.

Some federal money (approximately $91 million in FY 1982) is already being granted to states on a formula basis to provide adult education. But a far larger and bolder initiative is required. I propose that the federal

government (through grants to states) would make a learning opportunity available to every unemployed worker who either does not possess a high school diploma or who cannot currently function at the skill level the diploma implies. This offer should, I believe, include two elements:

- o The availability of an adult school--tuition free, locationally accessible, and designed to serve midcareer adults who are often not comfortable in a traditional classroom setting;[24] and
- o an income maintenance stipend, at the level offered by unemployment compensation, while receiving this training.

In the short run, this program would usefully occupy the time of currently unemployed individuals while providing them with survival income during their unemployment. It would function countercyclically, in the sense that more persons would be eligible during periods of high unemployment and a higher proportion of eligibles would accept the offer during such periods. More importantly, the program would represent a sound investment in building the skill levels of the American workforce, particularly among the segments of the workforce (both disadvantaged and dislocated) which are the special objects of government attention. The investment would pay off well in the long run both in terms of assisting employers by increasing the pool of attractive employees and in terms of reducing government public assistance and unemployment compensation costs.

Proposal Five: Provide Training to Dislocated Workers in Job Search and Career Management.

While publicly-provided skill training is, as I have emphasized throughout this statement, not a promising place for use of public resources in the reemployment of the majority of dislocated workers, assistance and training in the job search process probably is a useful public role. There is, of course,

wide variation among dislocated workers, as in any large population, in the level of job search skills and resources which individuals possess. But a substantial proportion of such workers have, prior to becoming dislocated, enjoyed long tenure with one employer. Their job search skills, which may never have been extensive, are therefore often rusty from disuse. They have not within recent memory been faced with the challenges of writing a resume, presenting themselves in job interviews, thinking through the transferability of their past job skills to a different occupation or industry, or searching for jobs not publicly listed. Additionally, the experience of becoming unemployed after an extended period of job stability is emotionally traumatic for many workers, making various forms of encouragement potentially important in overcoming lethargy. Finally, of course, many dislocated workers become unemployed as part of plant closures or mass layoffs or in a locale of general economic decline. In such circumstances, run-of-the-mill types of job search approaches--such as asking friends and relatives or checking for postings at local plant gates--may be inadequate, whereas they might have sufficed in more favorable circumstances.

One currently-fashionable mode for providing transition services which addresses these problems is the "job club."[25] A job club is a temporary alliance of job seekers who meet regularly to provide aid and mutual reinforcement to each individual's job search. The operating mode of a job club typically includes the following elements:

- o A membership of no more than 25;
- o Regular meetings for substantial amounts of time (e.g., half a day three times per week);
- o Explicit training on specific job search and self-presentation skills (e.g., resume writing, interview techniques); extensive use of practical exercises and role-playing in this training;
- o Provision of job search materials and facilities (newspaper want ads, telephones) for actual job-seeking during the meetings; and

- An atmosphere of peer pressure and support for a sustained level of search activity.

In short, the job club is a mechanism for encouraging and assisting individuals to work hard and effectively in making their own reemployment transitions; they do not operate on the principle of a formal labor market intermediary institution finding jobs for them.

Such an approach tends to be cost-effective both because it costs relatively little per client served (perhaps $700 or so) and because it provides only the relatively minimal level of transition assistance many dislocated workers require. Sponsorship of job clubs or similar relatively inexpensive job search training mechanisms is one useful way to expend funds to be made available under JTPA Title III. The Downriver Community Conference demonstration program, which for several years has been providing reemployment assistance to workers laid off from the Detroit-area automobile and automobile-related industries, offers one example of such services being skillfully and effectively provided.

Proposal Six: Target JPTA Title III Resources toward Providing Short-Term Assistance Teams for Communities Experiencing large-scale Employment Dislocation

While I have emphasized in this testimony the relatively slow pace and incremental nature of economic change, it must also be recognized that some of this change occurs in a "lumpy" fashion when viewed from the local perspective -- in the form of a mass layoff or large-scale plant closure which may destroy overnight the economic base of a community. Earlier, I spoke of about 100,000 dislocated workers a year who permanently lose their jobs and and will not be readily reemployed even in an economy of nationwide full employment. The majority of these workers will have lost their jobs as part of such large-scle layoffs or plant closures, and the majority of them live in communities in

economic crisis such as Flint, Youngstown, Buffalo, or Detroit.[26] What should the federal government do to aid these structurally unemployed workers and their communities?

I would propose that such assistance be provided by a new special federal institution designed to provide large-scale, rapid, flexible, short-term assistance to "crisis locales" in the wake of such economic disasters. This institution should be modeled on an innovative Canadian government agency called the Manpower Consultative Service (MCS). The operations of the MCS can be briefly described as follows:[27]

- When a plant shutdown or mass layoff situation arises, the MCS becomes involved immediately and temporarily (e.g., for a six month to twelve month period). Thus, it supplements established local labor market institutions at a time of peak demand.

- MCS's major role is that of coordinating, facilitating, and encouraging the mobilization of local resources, primarily those of local employers and local unions, into a committee. It brings in a modest amount of matching funds for administrative expenses and the services of a case officer, but local government and private resources must also be contributed.

- All workers involved in the job reduction are contacted to see if employment assistance is desired. (Typically, 70 percent respond affirmatively.) Each individual expressing interest in then interviewed individually to determine the most appropriate form of assistance.

- Those workers who need or desire career counseling, training in job search skills, retraining, or relocation assistance are referred to the Canadian equivalent of the Job Service for such assistance.

- The major form of assistance provided to most workers--some 64 percent of all cases--is direct placement assistance. Here, the key role which the MCS and local committee play is to bring into the open jobs in the "hidden labor market" (i.e., those jobs which are typically filled by word of mouth).

As I would envision something like the MCS in operation in the United States, it would copy some aspects of the Canadian approach and modify others. For one thing, U.S. Job Service is not generally equipped to provide career counseling or training in job search skills. Therefore, an MCS-like agency

would have to bring in the necessary skills and resources. Second, I would see an MCS-like intervention being triggered not only by a mass layoff or plant closing but also by long-term regional decline or persistent unemployment. Third, I would open these services to all persons in the labor force in a locale, not just those directly affected by a layoff; this is because all job seekers in a labor market have increased difficulty finding jobs following a layoff because of the increased competition from those laid off. Finally, for the reasons discussed earlier in this statement, I would emphasize job placement, job development, and job search training and generally preclude publicly funded skill retraining. Along with these modifications, however, I would preserve other aspects of the MCS approach: its role as a supplementer of existing services on a short-term basis, its tailoring of services of the needs of each individual worker, its nonbureaucratic style of operating, and its emphasis on mobilizing and enhancing local resources.

In his budget proposals for Fiscal Year 1984, President Reagan has asked for $240 million in funds for Title III of the Job Training Partnership Act, the title addressing the needs of dislocated workers. This level of funding is designed to support services to about 90,000 workers. In light of my estimates of the size of the dislocated workers problem, I would conclude that this order of magnitude of funding seems appropriate both for next year and for the years following--provided that the money is targeted and expended in the manner which I have suggested. Currently, Title III monies are allocated to all fifty states on a formula basis, rather than reserved for "communities in crisis" which are primarily located in Northeast and Midwest. Much of the Title III money will be spent by states on permanent, ongoing programs, rather than short-term intervention, and on skill retraining rather than placement. These policies should be changed. But once they are changed, the order of magnitude

of resources proposed seems approximately matched to the magnitude of the problem.

Proposal Seven: Modify Federal Policies to Encourage Workers Who Self-Select to Seek Retraining.

While I have emphasized throughout this statement that most midcareer workers will not and should not be thinking in terms of dramatic shifts of careers and extensive occupational retooling, a minority of such workers can and should be making that sort of investment. In the Ford-United Auto Workers program of assistance to displaced auto workers, for example, nearly 100,000 laid-off employees were eligible for tuition assistance for retraining at community colleges or four year colleges and universities; about 2,700 persons out of the 100,000 took up the offer. Typically, these are workers who have the motivation and the ability to be comfortable in a classroom necessary to make good use of these learning opportunities. Federal policy should encourage and facilitate the activities of this training-ready minority while not expecting that other, far more numerous unemployed not so situated should join them.

Two current federal policies in particular should be singled out as creating barriers to self-selected worker retraining; each of these barriers applies to a different subgroup of workers:

- Recipients of Unemployment Compensation. In most states of the nation except California, unemployment compensation is available only to those workers who are "available for work," and a person enrolled in a full-time training is judged not available. An unemployed individual interested in training for a new occupation either must wait until his unemployment compensation eligibility is exhausted, or he must give up the wage replacement income on which he is depending. Understandably, this situation reduces or delays the participation of many workers in training which would materially assist their reemployment. It is ironic--and tragic--for example, that while some 17 percent of employed adults engage in adult education each year, only 11 percent of unemployed adults do so.

- o Federal Tax Payers. The federal personal income tax allows an individual to deduct educational expenses if they are related to his current occupation but not if they prepare him for a new occupation. In light of the occupational transitions which some individuals will wish to make, this rule seems neither equitable nor efficient.

Conclusion.

In conclusion, Mr. Chairman, I would summarize my discussion this morning as follows:

- o First, long-term structural unemployment has risen in the United States over the 1970s and 1980s. However, its origins and nature have changed relatively little. It is still primarily a problem of disadvantaged workers, not dislocated ones.

- o In consequence, there is little basis for anticipating that the federal government will be required to spend billions of dollars on retraining assistance to dislocated workers over the upcoming years. The number of such workers is probably on the order of 100,000 or so a year, not millions; funding of the Job Training Partnership Act's Title III at about $240 million per year seems approximately to cover the problem; and those funds should be spent primarily on relatively cheap and short-term forms of assistance--such as short-term placement- oriented assistance to severly impacted communities, rather than on permanent programs offering extensive and expensive worker skill training. The higher priority for expanded federal investment in employment and training programs such as those under the Job Training Partnership Act should be in Title II--that for disadvantaged workers.

- o The most fruitful approach to retraining midcareer workers to keep up with changing times is to expand training through employers. Midcareer training is largely a matter for the employed, rather than the unemployed; and it is largely a matter of a continuous stream of small-scale training activities, rather than of large-scale retooling for an entirely new career.

- o Important opportunities exist for the new federal initiatives to attach the problems of long-term structural unemployment and simultaneously to enhance national productivity and international competitiveness. These include new incentives to raise the overall level of training by American industry--perhaps modeled on a French institution; new initiatives to teach job search techniques to dislocated workers, new, flexible institutions for short-term assistance to local labor markets in distress--perhaps modeled on a Canadian idea; reforms of certain "anti-training" provisions of the federal income tax and unemployment insurance program; and establishment of a new effort to provide pre-training basic literary skills to the adult unemployed. At the same time, renewed investment in existing federal training programs for disadvantaged adults and for disadvantaged nondisadvantaged youth can contribute effectively to national economic and social objectives.

Through such actions, long-term structural unemployment can be reduced and national productivity and international competitiveness can be simultaneously enhanced.

FOOTNOTES

[1]Opinions expressed in this statement are my own and do not necessarily reflect those of The Urban Institute, its trustees, or its sponsors.

[2]See Isabel V. Sawhill, The Full Employment Unemployment Rate (Washington, D.C.: The Urban Institute, 1981) and Martin Neil Bailey, The Worsening of Unemployment in the United States (Washington, D.C.: The Brookings Institution, 1983).

[3]The count of workers officially tallied as unemployed does not give a full picture of all those experiencing some form of underemployment. To these must be added "discouraged" workers who are out to work but who have stopped actively searching for employment, and workers employed on an involuntary part-time basis.

[4]See Isabel V. Sawhill, "Creating Jobs: Options for the 98th Congress," Testimony before the Committee on the Budget, U.S. House of Representatives, February 8, 1983, p. 7.

[5]See Marc Bendick, Jr., "The Role of Public Programs and Private Markets in Reemploying Workers Dislocated by Economic Change, "Policy Studies Review, (May 1983), pp. 715-733, and Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" in Seventh Annual Report: The Federal Interest in Employment and Training (Washington, D.C.: National Commission for Employment Policy, 1981), pp. 175-226.

[6]For more details on these workers and their labor market problems, see Marc Bendick, Jr., "Employment, Training, and Economic Development," in John L. Palmer and Isabel V. Sawhill (eds.) The Reagan Experiment (Washington, D.C.: the Urban Institute, 1982), pp. 247-268; Ralph E. Smith, "Groups in Need of Employment and Training Assistance," in Seventh Annual Report: The Federal Interest in Employment and Training (Washington, D.C.: National Commission for Employment Policy, 1981), pp. 43-60; and Daniel H. Saks, Distressed Workers in the Eighties (Washington, D.C.: National Planning Association, forthcoming 1983).

[7]See James Cook, "You Mean We've Been Speaking Prose All These Years?" Forbes (April 11, 1983), pp. 142-148.

[8]See H. Allan Hunt and Timothy L. Hunt, Human Resource Implications of Robotics (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1983).

[9]See Henry M. Levin and Russel W. Rumberger, The Educational Implications of High Technology (Stanford, California: Stanford University Institute for Research or Educational Finance and Governance, 1983).

[10]See Robert J. Samuelson "The Old Labor Force and the New Job Market," National Journal (February 26, 1983), pp. 426-431, and A.F. Ehrbar, "Grasping the New Unemployment," Fortune (May 16, 1983), pp. 106-112.

[11]See Hunt and Hunt, op. cit.

[12]For example, according to the U.S. Bureau of Labor Statistics (reporting in Employment and Earnings, May 1983), the average hourly wage in U.S. manufacturing was only $8.78 per hour. Primary metal production (including basic steel production) and transportation equipment manufacturing (including motor vehicle assembly) were each more than 30 percent above this average, but electronic equipment manufacturing was five percent below the average.

[13]See Raymond Vernon, "International Investment and International Trade in the Product Cycle," Quarterly Journal of Economics (May 1966), pp. 190-207.

[14]However, the speed with which a product moves through this life cycle is very often open to influence by corporate management. Investment in modernizing the technology of U.S. plants will tend to keep production in the United States longer. So will marketing strategies which emphasize continued innovation in response to specialized customer requirements rather than mass production of a standardized product.

[15]To say that they are cyclical, of course, is not to say that they should be ignored. Rather, they should be addressed--but by various programs for bridging workers' income gaps until their old jobs return rather than by assistance designed to transition these workers to new industries and occupations. Such bridging assistance might particularly focus on health insurance coverage and on continuity of mortgage payments; and it might include earning opportunities in countercyclical "soft public works" or public service employment programs. For some discussion of these options, see Marc Bendick, Jr., "Reemploying Dislocated Workers -- Five Strategies for Pennsylvania," Testimony before the House of Representatives' Committee on Appropriation, Legislature of the Commonwealth of Pennsylvania, March 9, 1983.

[16]See Marc Bendick, Jr., "Employment, Training, and Economic Development," in John L. Palmer and Isabel V. Sawhill (eds.), The Reagan Experiment (Washington, D.C.: The Urban Institute, 1982), p. 260.

[17]See Manuel de la Puente and Marc Bendick, Jr., Employment and Training Programs for Migrant and Refugee Youth (Washington, D.C.: The Urban Institute, 1983), and Robert Taggart, A Fisherman's Guide, An Assessment of Training and Remediation Strategies (Kalamazoo, MI: The W.E. Upjohn Institute for Employment Research, 1981).

[18]See National Commission for Employment Policy, The Federal Role in Vocational Education: Sponsored Research (Washington, D.C.: The Commission, 1981).

[19]See Anthony P. Carnevale and Harold Goldstein, Employee Training: Its Changing Role and an Analysis of New Data (Washington, D.C.: American Society for Training and Development, 1983.

[20]For a more formal discussion of the theory of human capital investment underlying this market failure, see Marc Bendick, Jr., and Mary Lou Egan, Recycling America's Workers: Public and Private Approaches to Midcareer Retraining (Washington, D.C.: The Urban Institute, 1982).

[21]For more on the French system, see Marc Bendick, Jr., Dislocated Workers and Midcareer Retraining in Other Industrial Nations (Washington, D.C.: The Urban Institute, 1983), and Bendick and Egan, op. cit.

[22]On ITA's, See Pat Choate, Retooling the American Work Force (Washington, D.C.: Northeast-Northwest Institute, 1982).

[23]See Bendick and Devine, op. cit.

[24]Many midcareer blue collar workers have relatively little recent experience in a classroom, and they may never have been comfortable with a school setting even when young. Therefore, effective programs of midcareer retraining need to adopt special training techniques and to develop "nonschool-like" atmospheres to serve adult learners effectively. For some ideas on adapting to the learning needs of adult workers, see Marc Bendick, Jr., "The Swedish 'Active Labor Market' Approach to Reemploying Workers Dislocated by Economic Change," Journal of Health and Human Resources Administration, forthcoming 1983.

[25]For a discussion of why and how placement assistance and job search training are effective forms of assistance for displaced workers, see Marc Bendick, Jr., Government's Role in the Job Transitions of America's Dislocated Workers, Testimony before the Committee on Science and Technology, U.S. House of Representatives, June 9, 1983., and Marc Bendick, Jr., "The Role of Public Programs and Private Markets...," op. cit.

[26]For statistical evidence that residence in such locales is associated with long-term unemployment, see Marc Bendick, Jr., "The Role of Public Programs and Private Markets in Reemploying Displaced Workes," Policy Studies Review (may 1983), pp. 715-733; and Bendick and Devine, op. cit.

[27]See Marc Bendick, Jr., Dislocated Workers and Midcareer Retraining in Other Industrial Nations, op. cit., pp. 10-13, Michael C. Barth and Fritzi Reisner, Worker Adjustment to Plant Shutdowns and Mass Layoffs (Washington, D.C.: ICF Inc., 1981); and William Batt, "Canada's Good Example with Displaced Workers," Harvard Business Review (July-August 1983).